

Ardmore Main Street Authority
Financial Statements
Year-End June 30, 2012

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ARDMORE MAIN STREET AUTHORITY
For the Year Ended June 30, 2012

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Independent Auditor's Report

To the Board of Trustees
Ardmore Main Street Authority

We have audited the accompanying financial statements of the governmental activities and each major fund, of Ardmore Main Street Authority (the Authority) a component unit of the City of Ardmore, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Ardmore Main Street Authority as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with the accounting principles generally accepted in the United State of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2013, on our consideration of Ardmore Main Street Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
June 10, 2013

BASIC FINANCIAL STATEMENTS

ARDMORE MAIN STREET AUTHORITY
Government-Wide Statement of Net Assets and
Governmental Funds Balance Sheet
June 30, 2012

	<u>General Fund</u>	<u>Adjustments (Note 5)</u>	<u>Statement of Net Assets</u>
<u>ASSETS</u>			
Current assets:			
Cash	\$ 136,000	\$ -	\$ 136,000
Accounts receivable	11,072	-	11,072
Land	-	100,448	100,448
Capital assets, net of accumulated depreciation	<u>-</u>	<u>1,135,395</u>	<u>1,135,395</u>
Total Assets	<u>\$ 147,072</u>	<u>\$ 1,235,843</u>	<u>\$ 1,382,915</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts Payable	\$ 11,340	\$ -	\$ 11,340
Rental Deposits Held	7,700	-	7,700
Deferred Revenue	8,000	-	8,000
Payroll Liabilities	<u>1,718</u>	<u>-</u>	<u>1,718</u>
Total liabilities	<u>\$ 28,758</u>	<u>\$ -</u>	<u>\$ 28,758</u>
<u>FUND BALANCE/NET ASSETS</u>			
Fund balances:			
Unassigned	\$ 118,314	\$ (118,314)	\$ -
Total fund balances	<u>118,314</u>	<u>(118,314)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 147,072</u>		
Net assets:			
Invested in capital assets, net of related debt		1,235,843	1,235,843
Unassigned		<u>118,314</u>	<u>118,314</u>
Total Net Assets		<u>\$ 1,354,157</u>	<u>\$ 1,354,157</u>

The accompanying notes are an integral part of the financial statements

ARDMORE MAIN STREET AUTHORITY
Government-Wide Statement of Activities and
Governmental Fund Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>General Fund</u>	<u>Adjustments (Note 5)</u>	<u>Statement of Activities</u>
Expenditures/expenses:			
Cultural and Recreational	\$ 229,888	\$ 81,834	\$ 311,722
Capital Outlay	<u>160,887</u>	<u>(160,887)</u>	<u>-</u>
Total Expenditures/Expenses	<u>390,775</u>	<u>(79,053)</u>	<u>311,722</u>
Program Revenues			
Charges for Services	28,405	-	28,405
Operating Grants and Contributions	<u>349,565</u>	<u>-</u>	<u>349,565</u>
	<u>377,970</u>	<u>-</u>	<u>377,970</u>
Net program expense			<u>37,843</u>
General Revenues:			
Interest income	455	-	455
Miscellaneous	<u>4,050</u>	<u>-</u>	<u>4,050</u>
Total general revenues	<u>4,505</u>	<u>-</u>	<u>4,505</u>
Excess of revenues and transfers in over expenditures and transfers out	(8,300)	8,300	
Net Change in Net Assets		70,753	70,753
Fund Balance/Net Assets:			
Beginning of Year	<u>126,614</u>	<u>1,156,790</u>	<u>1,283,404</u>
End of Year	<u>\$ 118,314</u>	<u>\$ 1,235,843</u>	<u>\$ 1,354,157</u>

The accompanying notes are an integral part of the financial statements

ARDMORE MAIN STREET AUTHORITY
Notes to Financial Statements
June 30, 2012

Note 1 – General Statement and Summary of Significant Accounting Policies

Organization

The Ardmore Main Street Authority (“Authority”) is a trust created April 17, 1989 pursuant to a trust indenture under the Oklahoma Trust Act of Title 60, Oklahoma statutes. The City of Ardmore is the beneficiary of Ardmore Main Street Authority. The Authority is a component unit of the City of Ardmore. The Authority is governed by a separate board but is fiscally dependent upon the City of Ardmore for operating funds. The primary purpose of the trust is to promote economic growth and the well being of Ardmore, preserve and improve the historic value of its downtown area, create a quality business environment for both business and consumer, and create an ever expanding resource for the downtown area.

The Authority’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Authority are discussed below.

Basis of Presentation Government-Wide and Fund Financial Statements

Governmental Financial Statements and Fund Type

The Authority operates one fund, general fund, which is a governmental type of activity. Governmental funds are those through which the governmental functions of the Authority are financed. The measurement focus is upon determination of changes in net assets, rather than upon net income determination.

In the statement of net assets, the governmental activities are reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority’s net assets are reported in two parts - invested in capital assets and unrestricted net assets.

The statement of activities reports both the gross and net cost of each of the Authority’s functions. The statement of activities reduces gross expenses (including depreciation) by related program revenues, grants and contributions. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants.

The net costs, by function, are normally covered by general revenue (interest income, intergovernmental revenues).

ARDMORE MAIN STREET AUTHORITY
Notes to Financial Statements
June 30, 2012

Note 1 -- General Statement and Summary of Significant Accounting Policies - continued

The government-wide focus is more on the sustainability of the Authority as an entity and the change in the Authority's net assets resulting from current year's activities.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Authority considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the Authority considers amounts to have been spent first out of committed funds, then assigned funds and finally unassigned funds as needed.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to the timing of when revenues and expenditures are recognized in the accounts and reported in the financial statements.

Government fund types use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures in the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due.

Capital Assets

Capital assets are primarily buildings, improvements and equipment. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$100 (amount not rounded) and an estimated useful life which extends substantially beyond the year of acquisition. The cost of the expenditure is capitalized and depreciated or amortized over the estimated useful life of the asset utilizing the straight-line method. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation is computed using the straight line method over the estimated useful lives of five to seven years for equipment and 40 years for building.

Deferred Revenue

Grant revenue that is restricted for specific purposes is deferred and recognized as income when the expenditures, as specified by the grant, are made. Grant revenue still on hand at June 30, 2012 relates to Heritage Hall Capital Improvements in the amount of \$8,000.

ARDMORE MAIN STREET AUTHORITY
Notes to Financial Statements
June 30, 2012

Note 1 -- General Statement and Summary of Significant Accounting Policies - continued

Budgetary Comparison Information

Budgetary comparison information is required to be presented for the general fund if there is a legally adopted budget. The Authority is not legally required to adopt a budget for the general fund. Therefore, budgetary comparison information is not included in the Authority's financial statements.

Note 2 - Cash

Custodial Credit Risk. Custodial credit risk for cash deposits is the risk that in the event of a bank failure, the Authority's deposits may not be returned or the Authority will not be able to recover collateral securities in the possession of an outside party. The Authority's policy requires collateral for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Custodial credit risk for deposits not formally addressed by bond indentures require that deposits be maintained by the trustee bank specified in the indenture. Cash deposits of the Authority are insured or collateralized by a pledging bank's agent in the Authority's name with securities consisting of U. S. government, state or municipal securities.

Note 3 – Capital Assets

Capital assets as of June 30, 2012, consists of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets, not being depreciated</i>				
Land	\$ 58,583	\$ 41,865	\$ -	\$ 100,448
Total capital assets, not being depreciated	<u>58,583</u>	<u>41,865</u>	<u>-</u>	<u>100,448</u>
<i>Capital assets, being depreciated</i>				
Buildings and Improvements	1,987,462	119,022	-	2,106,484
Equipment	173,774	-	-	173,774
Total capital assets, being depreciated	<u>2,161,236</u>	<u>119,022</u>	<u>-</u>	<u>2,280,258</u>
Less Accumulated Depreciation	<u>(1,063,029)</u>	<u>(81,834)</u>	<u>-</u>	<u>(1,144,863)</u>
Total capital assets, being depreciated, net	<u>1,098,207</u>	<u>37,188</u>	<u>-</u>	<u>1,135,395</u>
Governmental activities capital assets, net	<u>\$ 1,156,790</u>	<u>\$ 79,053</u>	<u>\$ -</u>	<u>\$ 1,235,843</u>

Depreciation expense of \$81,834 was charged to the Authority's cultural and recreational activity. During 2012, the Authority received donated land in the amount of \$6,000.

ARDMORE MAIN STREET AUTHORITY
Notes to Financial Statements
June 30, 2012

Note 4 – Contingencies

The Authority is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees, and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

Note 5 – Adjustments from Fund Financial Statements to Government-Wide Financial statements

The excess of revenues over expenditures in governmental fund statement of revenues, expenditures and changes in fund balances differs from the change in net assets as reported in the government-wide statement of activities. The total difference is \$9; .275. The detail of this difference is as follows:

Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense

Capital Outlay	\$ 160,887
Depreciation Expense	(81,834)
	\$ 79,053

The fund balances in the governmental fund balance sheet differs from the net assets reported in the government-wide statement of net assets. The total difference is \$1,156,790. The detail of this difference is as follows:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	\$ 1,235,843
	\$ 1,235,843

ARDMORE MAIN STREET AUTHORITY
Notes to Financial Statements
June 30, 2012

Note 6 – Fund Balance

As of these financial statements, the Authority has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable—Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted—Amounts that can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors.

Committed—Amounts that can be used only for specific purposes determined by a formal action by Authority resolution. Commitments may be modified or rescinded only through resolution approved by the Authority board.

Assigned—Amounts that are designated by Management for a specific purpose with authorization of the Authority board.

Unassigned—All amounts not included in other spendable classifications.



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

To the Board of Directors
Ardmore Main Street Authority

We have audited the financial statements of the governmental activities and major fund of Ardmore Main Street Authority, a component unit of the City of Ardmore as of and for the year ended June 30, 2012, which collectively comprise the Ardmore Main Street Authority's basic financial statements and have issued our report thereon dated June 10, 2013. Our report contained an other matters paragraph related to required supplementary information that was omitted. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Ardmore Main Street Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Ardmore Main Street Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ardmore Main Street Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ardmore Main Street Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2012-1, 2012-3, and 2012-4 described in the accompanying schedule of findings and responses

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and responses as 2012-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ardmore Main Street Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2012-4 and 2012-5.

Ardmore Main Street Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Ardmore Main Street Authority's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, funding agencies, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
June 10, 2013

ARDMORE MAIN STREET AUTHORITY
Schedule of Findings and Responses
June 30, 2012

2012-1 Segregation of duties

Condition – Same individual has the ability to collect money, prepare deposits, post the deposits and reconcile the bank account.

Criteria – A reliable internal control structure provides for adequate segregation of duties among those who have custody, access, record keeping and oversight of cash.

Cause – The Authority has a small staff which limits the ability to adequately segregate duties.

Effect – Risk that errors or omission could occur and not be detected in a timely manner.

Recommendation – We recommend that the Authority evaluate segregating duties for recordkeeping and oversight to another person or outside party that does not have access to the collection or depositing of money.

Views of Responsible Officials – The treasurer is currently receiving the bank statements unopened and reviewing before submitting for reconciliation. The treasurer will begin both reviewing and documenting their review of the bank reconciliations after they are prepared or will prepare the bank reconciliations.

2012-2 Purchase Documentation

Condition – Purchases were identified which did not have supporting documentation.

Criteria – An effective and reliable internal control structure requires supporting, corroborating documentation of all transactions as substantiation of the transaction as a reasonable and valid expense for the entity.

Cause – The Authority does not currently have a procedure manual or policy in place to instruct staff on the ways to consistently apply rules, requirements, and methods on record keeping.

Effect – 3 of 25 purchases lacked supporting documentation.

Recommendation – We recommend the Authority to develop a procedures manual to provide guidance on processes to be followed, documentation to complete, reconciliations, etc. for all Authority financial transaction. This will allow for more consistency from year to year as new staff and volunteers are involved.

Views of Responsible Officials – The Authority will develop a procedure manual to implement and apply controls and procedures.

ARDMORE MAIN STREET AUTHORITY
Schedule of Findings and Responses
June 30, 2012

2012-3 Material Adjustments for Fixed assets

Condition – Donated land was identified that had not been recorded on the Authority’s financial records.

Criteria – Effective internal control over financial reporting includes the identification and analysis of the risk of material misstatements in the financial statements. Management of the Authority is responsible for designing a system to manage the risks over preparation of the financial statements. The responsibility for the financial statements remains with management even when the preparation of the financial statements is transferred to a service provider.

Cause – The Authority does not have a procedure in place to recognize donated items in its financial records.

Effect – An adjustment of \$6,000 was necessary to record land donated.

Recommendation – Management should continue to review its year-end procedures to determine if financial information is complete.

Views of Responsible Officials – The Authority will develop a procedure to implement and apply controls and procedures.

2012-4 Revenue Receipt and Deposit Compliance

Condition – Cash receipts are not being deposited within one business day. In addition, amount received that related to subsequent period were not properly deferred.

Criteria – Title 63 Section 517.3 of Oklahoma state statues require the treasurer of every public entity shall deposit daily not later than the immediately next banking day, all funds, in either state or county depositories within Oklahoma. Generally accepted accounting principles require that amounts received before revenue recognition has been met should be deferred.

Cause – The Authority does not currently have a procedure manual or policy in place to instruct staff on the ways to consistently apply rules and requirements.

Effect – 5 of 14 receipts transactions were not deposited within one business day as required by state law. 1 of 14 receipts was no recorded in the correct accounting period.

Recommendation – We recommend the Authority to develop a procedures manual to provide guidance on processes to be followed, documentation to complete, reconciliations, etc. for all Authority financial transaction. This will allow for more consistency from year to year as new staff and volunteers are involved.

ARDMORE MAIN STREET AUTHORITY
Schedule of Findings and Responses
June 30, 2012

Views of Responsible Officials – The Authority will develop a procedure manual to implement and apply controls and procedures.

2012-5 Conflict of Interest

Condition – The Authority does not have a conflict of interest policy.

Criteria – Title 60, Section 178.8: “a conflict of interest shall be deemed to exist in any contractual relationship in which such trustee or member of his immediate family is an officer, partner, principal stockholder, shall directly or indirectly buy or sell goods or services to, or otherwise contract with such trust.”

Cause – The Authority does not have a written conflict of interest policy nor do they require annual representation from their board members related to conflict of interest.

Effect – Expenses could have occurred between a trustee owned business that would not be compliant with state law.

Recommendation – We recommend that the Authority establish a written policy that complies with state statutes related to conflict of interest, and require each board member to make annual disclosure of related parties.

Views of Responsible Officials – The current procedure is to not purchase from board members.